ISSN: 2249-7196
IJMRR/June-2024/ Volume 14/Issue 4/338-348
Priyanka Gurjalwar / International Journal of Management Research & Review

CAPITAL STRUCTURE ULTRATECH

[1]PRIYANKA GURJALWAR and [2]Dr., B. SAHAJA
[1]PG Scholar, [2]Associate Professor,
[1,2]Department of Management, Teegala Krishna Reddy Engineering College (UGC-Autonomous), Hyderabad,
Telangana, India

ABSTRACT

Capital structure refers to the mix of long – term sources of funds, such as debentures, long-term debt, preference share capital and equity share capital including reserved and surpluses (i.e. Retained earnings). Some companies do not plan their capital structure, and it develops as a result of the financial decisions taken by the financial manager without any formal planning. These companies may proper in the short-run, but ultimately they may face considerable difficulties in raising funds to finance their activities. With unplanned capital structure, these companies may also fail to economies the use of their funds. Consequently, it is being increasingly realized that a company should plan its capital structure to maximize the use of the funds and to be able to adapt more easily to the changing conditions.

theoretically, the financial manager should plan an optimum capital structure for his company. The optimum capital structure is obtained when the market value per share is maximum.

In practice, the determination of an optimum capital structure is a formidable task, and one has to go beyond the theory. There are significant variation among industries and among individual companies within an industry in terms of capital structure.

since a number of factors influence the capital structure decision of a company, the judgment of the person making the capital structure decision plays a crucial part.

INTRODUCTION

CAPITAL STRUCTURE DEFINED: the assets of a company can be financed either by increasing the owners claim or the creditors claim. The owners claims increase when the form raises funds by issuing ordinary shares or by retaining the earnings, the creditors claims increase by borrowing .the various means of financing represents the “financial structure” of an enterprise .the financial structure of an enterprise is shown by the left hand side (liabilities plus equity) of the balance sheet. Traditionally, short-term borrowings are excluded from the list of methods of financing the firm’s capital expenditure, and therefore, the long term claims are said to form the capital structure of the enterprise .the capital structure is used to represent the proportionate relationship between debt and equity .equity includes paid-up share capital, share premium and reserves and surplus.

ISSN: 2249-7196
IJMRR/June-2024/ Volume 14/Issue 4/338-348
Priyanka Gurjalwar / International Journal of Management Research & Review

the financing or capital structure decision is a significant managerial decision .it influences the shareholders returns and risk consequently; the market value of share may be affected by the capital structure decision. The company will have to plan its capital structure initially at the time of its promotion.

NEED AND IMPORTANCE OF CAPITAL STRUCTURE

the value of the firm depends upon its expected earnings stream and the rate used to discount this stream. The rate used to discount earnings stream it's the firm's required rate of return or the cost of capital. Thus, the capital structure decision can affect the value of the firm either by changing the expected earnings of the firm, but it can affect the reside earnings of the shareholders. The effect of leverage on the cost of capital is not very clear. Conflicting opinions have been expressed on this issue. In fact, this issue is one of the most continuous areas in the theory of finance, and perhaps more theoretical and empirical work has been done on this subject than any other.

if leverage affects the cost of capital and the value of the firm, an optimum capital structure would be obtained at that combination of debt and equity that maximizes the total value of the firm or minimizes the weighted average cost of capital. The question of the existence of optimum use of leverage has been put very succinctly by ezra solomon in the following words.

given that a firm has certain structure of assets, which offers net operating earnings of given size and quality, and given a certain structure of rates in the capital markets, is there some specific degree of financial leverage at which the market value of the firm's securities will be higher than at other degrees of leverage?

the existence of an optimum capital structure is not accepted by all. These exist two extreme views and middle position. David durand identified the two extreme views the net income and net operating approaches.

RESEARCH METHODOLOGY

Data relating to ultratech cements. Has been collected through

PRIMARY SOURCES:

Discussions with the finance manager and other members of the finance department.

SECONDARY SOURCES:

Published annual reports of the company for the year 2019- 2023

DATA ANALYSIS

The collected data has been processed using the tools of

- Ratio analysis

- Graphical analysis
- Year-year analysis

These tools access in the interpretation and understanding of the existing scenario of the capital structure.

LIMITATION OF THE STUDY

eps is one of the mostly widely used measures of the company's performance in practice. As a result of this, in choosing between debt and equity in practice, sometimes too much attention is paid on eps, which however, has serious limitations as a financing-decision criterion.

the major short coming of the eps as a financing-decision criterion is that it does not consider risk; it ignores variability about the expected value of eps. The belief that investors would be just concerned with the expected eps is not well founded. Investors in valuing the shares of the company consider both expected value and variability.

REVIEW OF LITERATURE

cement is a key infrastructure industry. It has been decontrolled from price and distribution n 1st march 1989 and de-licensed on 25th july 1991. However, the performance of the industry and prices of cement are monitored regularly. The constraints faced by the industry are reviewed in the infrastructure coordination committee meetings held in the cabinet secretariat under the chairmanship of secretary (coordination). Its performance is also reviewed by the cabinet committee n infrastructure.

Capacity and production

India is the second largest producer of cement in the world after china. The cement industry comprises of 178 large cement plants with an installed capacity of 198.28 million tones and more than 300 mini cement plant with an estimated capacity of 16.15 million tones per annum. The cement corporation of india, which is central public sector undertaking, has 15 units. There are 15 large cement plants owned by various state governments. The total installed capacity in the country as a whole is 189.38 million tones. Actual cement production in 2012-13 was 166.35 million tones as against a production of 156.90 million tons in 2007-08, registering a growth rate of 8.84%

keeping in view the trend of growth of the industry in previous years, a production target of 176 million tones has fixed for the year 2023. During the period april-june 2023, a production (provisional) was 31.30 million tones. The industry has achieved a growth rate of 4.86 per cent during this period.

Exports

apart from meeting the entire domestic demand, the industry is also exporting cement and clinker. The export of cement during 2018-19 and 2022-23 was 5.19 million tones and 6.92 million tones respectively.

Export during april-may, 2023 was 1.35 million tones. Major exporters were gujarat ambuja cements ltd. And l&t ltd.

Recommendations on cement industry

for the development of the cement industry 'working group on cement industry' was constituted by the planning commission for the formulation of x five year plan. The working group has projected a growth rate of 15% for the cement industry during the plan period and has projected creation of additional capacity of 40-62 million tones mainly through expansion of existing plants. The working group has identified following thrust areas for improving demand for cement;

- Further push to housing development programmes;
- Promotion of concrete highways and roads; and
- Use of ready-mix concrete in large infrastructure project.

Further, in order to improve global competitiveness of the indian cement industry, the department of industrial policy & promotion commissioned a study on the global competitiveness of the indian industry through an organization of international repute, viz. Kpmg consultancy pvt. Ltd. The report submitted by the organization has made several recommendations for making the indian cement industry more competitive in the international market. The recommendations are under consideration.

Technoloical change

cement industry has made tremendous strides in technological up gradation and assimilation of latest technology. At present ninety three per cent of the total capacity in the industry is based on modern and environment-friendly dry process technology and only seven per cent of the capacity is based on old wet and semi-dry process technology. There is tremendous scope for waste heat recovery in cement plants and thereby reduction in emission level. One project for co-generation of power utilizing waste heat in an indian cement plant is being implemented with japanese assistance under green aid plan. The induction of advanced technology has helped the industry immensely to conserve energy and fuel and to save materials substantially. Indian is also producing different varieties of cement like ordinary portland cement (opc), portland pozzolana cement (ppc), portland blast furnace slag cement (pbfs), oil well cement, rapid hardening portland cement, sulphate resisting portland cement, white cement etc. Production of these varieties of cement conform to the bis specifications. It is worth mentioning that some cement plants have set up dedicated jetties for promoting bulk transportation and export.

THE CAPITAL STRUCTURE CONTROVERSY:

the value of the firm depends upon its expected earnings stream and the rate used to discount this stream. The rate used to discount earnings stream it's the firm's required rate of return or the cost of capital. Thus, the capital structure decision can affect the value of the firm either by changing the expected earnings of the firm, but it can affect the reside earnings of the shareholders. The effect of leverage on the cost of capital is not very clear. Conflicting opinions have been expressed on this issue. In fact, this issue is one of the most continuous areas in the theory of finance, and perhaps more theoretical and empirical work has been done on this subject than any other.

if leverage affects the cost of capital and the value of the firm, an optimum capital structure would be obtained at that combination of debt and equity that maximizes the total value of the firm or minimizes the weighted average cost of capital. The question of the existence of optimum use of leverage has been put very succinctly by ezra solomon in the following words.

given that a firm has certain structure of assets, which offers net operating earnings of given size and quality, and given a certain structure of rates in the capital markets, is there some specific degree of financial leverage at which the market value of the firm's securities will be higher than at other degrees of leverage?

the existence of an optimum capital structure is not accepted by all. These exist two extreme views and middle position. David durand identified the two extreme views the net income and net operating approaches.

DATA ANALYSIS AND INTERPRETATION

EBIT LEVELS

Particulars	2018	2019	2020	2021	2022	2023
Earnings Before Interest & Tax	1596.18	969.61	619.76	803	861.19	1735.69
Change	-	176.54	477.39	294.2	234.99	374.53
% Change	-	16.50%	43.55%	26.83%	21.44%	30.30%

DEGREE OF FINANCIAL LEVERAGE:

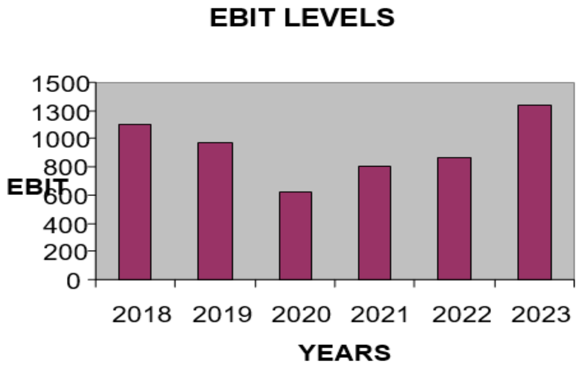
$$DFL = \frac{\%\ \text{Change in EPS}}{\%\ \text{Change in EBIT}}$$

the higher the quotient of del, the greater the leverage. In ncl industries case it is increasing because of decrease in ebit levels from 2018-2019, to 2022-2023.

The ebit level is in a decreasing trend because of drastic decline in prices in cement industry during above period.

In the year 2022 and 2023 the ebit level has increased substantially because of raise inn cement prices because of demand and the policies of govt. Such as rural housing and irrigation project taken up.

ISSN: 2249-7196
IJMRR/June-2024/ Volume 14/Issue 4/338-348
Priyanka Gurjalwar / International Journal of Management Research & Review



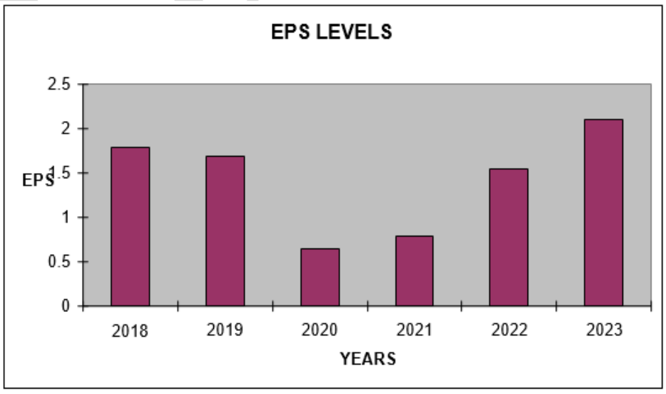
INTERPRETATION

The ebit level in 2018 is at 1596.18 lacs and is decreasing every year till 2023. Because of slump in the cement industry less realisation. The ebit levels in 2020 again started growing and reached to 802.46 lacs and in 2021 were at 861.19 lakhs and in 2022 were at 861.19, because of the sale price increase per bag and increase in demand. The infrastructure program taken up by the a.p. Govt. In the field s of rural housing irrigation projects created demand and whole cement industries are making profits.

PERFORMANCE

EPS ANALYSIS

Particulars	2018	2019	2020	2021	2022	2023
Profit After Tax	29077000	2745000	15417001	30569000	32806000	34078000
Less: Preference Dividend	-	-	-	-	-	-
Amount of Equity share holder	29077000	27450000	15417001	17857000	25219000	34144183
No. OF equity share of Rs.15/- each	19234825	19234825	19234825	19234825	19234825	19234825
EPS	**1.79**	**1.69**	**0.64**	**0.79**	**1.55**	**2.1**



Interpretation

The pat is in an increasing trend from 2018-19 because of increase in sale prices and also decreases in the cost of manufacturing. In 2020 and 2023 even the cost of manufacturing has increased by 5% because of higher sales volume pat has increased considerably, which leads to higher eps, which is at 9.36 in 2023.

ULTRATECH CEMENT INDUSTRIES LTD. THE FUNDING MIX

Particulars	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Source of funds						
Share holders funds						
a) Share capital	1922.93	1922.93	1922.93	1922.93	1922.93	2199.97
b) Reserves and surplus	1802.87	796.48	890.21	881.46	948.59	937.65
c)Deferred tax	-	778.62	787.99	-	-	-
TOTAL (A)	**3175.8**	**3198.03**	**3301.18**	**2504.39**	**2571.52**	**3167.62**
Loan Funds						
a) Secured Loans	1924.9	1872.53	1918.19	1667.82	1983.66	4018.28
b) Unsecured Loans	2299.19	2588.22	2191.95	2404.33	1916.95	1954.07
TOTAL (B)	**4024.06**	**3960.75**	**3575.17**	**3572.18**	**3495.61**	**5969.35**
TOTAL (A+B)	**7184.86**	**7188.78**	**6876.24**	**6075.92**	**6067.18**	**9127.97**
% of S H in total C.E	43.72	44.67	48	41.22	42.38	34.3
% of Loan Fund in total C.E	56.28	55.33	52	58.78	57.62	65.69

Interpretation

The shareholder fund is at 3175.8 constitutes 43.72% in total c.e and loan funds constitute 56.28% in 2017-18. The funding mix on an average for 6 years will be 45% of shareholders fund and 55% of loan funds there by the company is trying to maintain a good funding mix. The leverage or trading on equity is also good because the company affectively utilizing the loan funds in the capital structure. So that it leads to higher profit increase of eps in 2019 at 0.79 to 2023 1.55

ISSN: 2249-7196
IJMRR/June-2024/ Volume 14/Issue 4/338-348
Priyanka Gurjalwar / International Journal of Management Research & Review

TERM LOANS

2018-2019

Particulars		Rs. (in Lakhs)
TERM LOANS		
IDBI	0.00	
IFCI	0.00	
		0.00
HIRE PURCHASE LOANS		
TVS Lakshmi Credit Ltd	0.00	0.00
Haritha Finance Ltd	0.00	0.00
Funded interest	0.00	0.00
Non Convertible Debentures		1527.98
CASH CREDIT		
Global Trust Bank	641.33	
Vijaya Bank	55.59	
		696.92
		1,724.90
UNSECURED LOANS		
Deposits from public		727.76
Lease /Hire purchases		0.34
IFST Loan from Govt. of AP		0.00
Deferred sales tax loan		1.60
Deposits from stockiest & others		1,566.21
Inter corporate deposits		3.25
TOTAL		**2,299.19**

Interpretation

The non-convertible debentures are being redeemed from 2022 and 2017 financial year onwards and were completely repaid by 2020-2021. The cash credit assistance was provided by global trust bank and vijaya bank to the tune of rs.696 lacs and canara bank factors to the tune rs.188 lacs was completely repaid by taking cash credit facility from oriental bank of commerce and uco bank to the tune of rs.1500 lacs. The company is paying of deposits from public every year.

deposits from public were stood at 727.76 lacs in 2018-19 and in 2020-2021 it came down to 399.69 lacs. The irida has granted rs.255 lacs term loan for installation of energy saving equipment and the loan was again increased to 779.19 lacs in 2020-2021.

FINDINGS, SUGGESTIONS AND CONCLUSION

ISSN: 2249-7196
IJMRR/June-2024/ Volume 14/Issue 4/338-348
Priyanka Gurjalwar / International Journal of Management Research & Review

FINDINGS

- The authorized capital (or) equity shares are constant from the beginning year 2022 to 2023 (550 lakhs). And issued shares also constant from 2022 to 2023 (550 lakhs), from this we find that retained earnings form the major source of finance.
- Analysis of debt equity ratio reveals that the company employed more of debt for financing growth. The debt equity ratio was approximately 1.24 times and increased to 1.92 times in the year 2021.
- The interest coverage ratio in the year 2022 is 2.99 indicating that the firm has very low debt servicing capacity. The interest coverage ratio is high in the year 2018. Indicating that the firm has sufficient earning to cover the interest charges. Company ability to service the debt has increased over the period of study.
- The returns on net worth is high in the year 2019 by 19% indicating that the firm earned greater returns on the investment.
- The company turnover position is gradually increasing every year from 2022 to 2021.
- From ebit – eps analysis eps will be high when capital structure consists of 25% equity and 75% debt capital.
- The net profit of the firm is growing for the last 5 years which shows good operational efficiency of firm.
- The net worth of firm is very high due to high reserve in relation to equity.

SUGGESTIONS

- The company has to maintain the optimal capital structure and leverage so that in coming years it can contribute to the wealth of the shareholders.
- The mining loyalty contracts should be revised so that it will decrease the direct in the production
- The company has to exercise control over its outside purchases and overheads which have effect on the profitability of the company.
- As the interest rates in pubic financial institutions are in a decreasing trend after globalization the company going on searching for loan funds at a less rate of interest as in the case of uco bank.

- Efficiency and competency in managing the affairs of the company should be maintained.

CONCLUSIONS

- Sales in 2018-19 is at 7267.74 and in 2020-2021 17752.43 lakhs those in a decreasing trend to the extent of 20% every year. On the other hand manufacturing expenses are at 8725.16 lakhs from 2020-2021. There has been significant increase in cost of production during 2020-2021 because of increase in royalty.
- The interest charges were 492.21 in 2018 and 357.07in 2019 and 522.56 respectively shows that the company redeemed fixed interest bearing funds from time to time out of profit from 2018-2019.debantures were partly redeemed with the help of debenture redemption reserve and other references.
- The pat (profit after tax) in 2020-2021 is at 340.78 lakhs. The pat has increased in prices in whole cement industry during the above period. The profit has increased almost 18% during the period 2018-2023.
- Debentures were redeemed by transfers to d.r.r. In 2022-2023.
- The share capital of the company remained in charge during the three-year period because of no public issues made by the company.
- The secured loans have decreased consistently from 2018-2019 and slight increase in 2021
- The unsured loans have increased from 2020-2021. All the secured and an insecure loan obtained by the company to optimize the leverage financially has some set books. Because of non-payment of dividends to share holders. Because of less profit made during the period.
- The reserves of the company steadily increase from 2017 to 2021. Because of less transfer in p&l appropriation a/c and transfer to differed tax. Thus marginalizing the equity interest net worth of the company.
- The current ratio of the company in 2022-23 is at 2.12 and in 2018-19 at 1.98 and in 2020-21 at 1.95, which is as per the norms of the manufacturing industry. The current ratio shows that the company's liquidity or short-term solvency is in a better position to pay off the current liabilities as and when payable

BIBLIOGRAPHY

1)	financial management	:	khan & jain
2)	financial management	:	i.m. Pandey
3)	financial management	:	prasanna chandra
4)	financial management	:	r.p. Rastogi
5)	strategic management	:	john .a. Pierce